

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6404

BILL NUMBER: SB 190

NOTE PREPARED: Dec 19, 2012

BILL AMENDED:

SUBJECT: Accrual Accounting Required.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill requires, after December 31, 2013, that state agencies, state educational institutions, and political subdivisions maintain accounts on an accrual basis and, after December 31, 2014, include information prepared on an accrual basis in budgets and financial reports.

It requires that the State Board of Accounts prescribe a plan for state agencies, state educational institutions, and political subdivisions to follow to convert to an accrual basis of accounting in budgets and financial reports. The bill specifies that this plan must be prescribed before October 1, 2013.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Summary:* The bill could potentially increase costs for the State Board of Accounts (SBOA) by an estimated \$9 M to provide sufficient staff to: (1) train local officials in accrual accounting; (2) provide services to local units that need assistance preparing full accrual documents; and (3) to develop new forms and instructions.

Background: In the past, the SBOA prepared statements for and audited units of government on an accrual basis of accounting. Currently, the SBOA allows units to provide financial statements on a regulatory or cash basis, and as a result, the SBOA has reduced the number of field examiners, with the reduction between 2006 and 2012 totaling about 60 positions. These employees have an estimated salary cost of \$3.6 M.

There are an estimated 2,476 local units of government. Some of these units, such as school districts, may

employ an accountant or other personnel who can prepare statements on the accrual basis of accounting. For others that cannot prepare their own statements, changes in Generally Accepted Government Accounting Standards no longer allow the auditor to provide nonaudit services, such as financial statement preparation. The SBOA could develop a two division approach with a team to prepare the financial statement and another to perform the audit. Additionally, SBOA indicates that full-accrual audits require more time than a regulatory or cash-basis audit.

State agencies would not incur additional costs to the extent that most already report on an accrual basis. The Indiana Auditor of State uses full accrual accounting to produce the comprehensive annual financial report. As well, state universities currently use accrual accounting to produce annual financial reports.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary:* Local elected office holders not familiar with accrual-based accounting may be required to hire or train personnel with the expertise in keeping accrual accounting records. The impact on local expenditures would depend on the action taken by local officials.

Background: Although there are some local units of government, such as airport authorities and larger municipalities, that already incorporate accrual-based accounting for annual reporting, the majority of local units of government, including all counties, cities, towns, and townships, currently use cash-based accounting. It is estimated that on average local units would have to spend about \$15,000 to produce and have audited accrual basis financial reports.

Explanation of Local Revenues:

State Agencies Affected: State agencies and state educational institutions.

Local Agencies Affected: Political Subdivisions.

Information Sources: Bruce Hartman, State Examiner, 317-232-2524.

Fiscal Analyst: Karen Firestone, 317-234-2106.